Advanced Info Service Pcl (ADVANC TB) - HOLD

News update

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Growing FBB business through acquisition

- **ADVANC will acquire FBB business from JAS**
- **It will also purchase all JAS' stake in JASIF**
- **The deal is targeted to be done in 1Q23**
- **We are positive on this accretive earnings deal**

ADVANC announced to SET yesterday a signed agreement to acquire the second largest fixed broadband (FBB) operator in Thailand, Triple T Broadband (TTTBB), from Jasmine International Pcl (JAS TB, non-rated). The deal includes a purchase of 1,520m units (19% of all units) of Jasmine Broadband Internet Infrastructure Fund (JASIF TB, U.R.) from the same seller. The acquisitions are subjected to approvals from JAS' shareholders, JASIF's unitholders, and NBTC (the regulator), with a target to be finalized within 1Q23.

- ADVANC will acquire 99.9% stake in TTTBB, including its related subsidiaries in operating FBB service, for a total value of Bt19.5bn.
  - We see the acquisition price favorable to ADVANC based on TTTBB's existing 2.4m active subscribers, implying Bt8.1k/sub purchase price, yet to include over Bt30bn in book value of servicing infrastructure assets.
  - TTTBB dominates markets in rural areas, while most of ADVANC's subs and fiber optic infrastructure are in major cities, thus low cannibalization between the two entities.
  - Since JAS does not operate mobile service, ADVANC targets to upsell (and cross-sell) its mobile service products to TTTBB's FBBs subs to enhance value after acquisition, on top of expected cost-saving benefits.
- ADVANC will also purchase 19% stake in JASIF from JAS at Bt8.5/unit (total value of Bt12.92bn).
  - This is to secure core infrastructure assets in operating TTTBB's service, which now belong to JASIF under sale and leaseback contracts.
  - Seeing rental price between TTTBB and JASIF as too high, ADVANC includes a clause in terminating rental assurance payments to JASIF (40% of total rental price) as one of precedent conditions for the deal. ADVANC offers to compensate JASIF's unitholders with a six-years contract extension to 2037 (from 2031), subjected to their approval.
- We estimate the acquisitions to be 3.5% accretive to ADVANC's earnings in 2023F, see Exhibit 1, assuming 1) ADVANC funds the deal 100% with debt at 3.5% interest cost, 2) the deal is done within 1Q23, and 3) a success negotiation to lower down rental rate between TTTBB and JASIF.

We are strongly positive on this deal since it grants ADVANC a shortcut to become the second largest FBB operator in Thailand with 35% market share (Exhibit 2) at attractive investment cost. After factored in adjusted down rental rate from JASIF, the acquisition price implies less than 10x 2022F PE for TTTBB (vs. 21x trading PE for ADVANC). We believe investment cost on JASIF will pay back itself by dividends from the fund over its remaining 15-years contract life.

Key Valuations

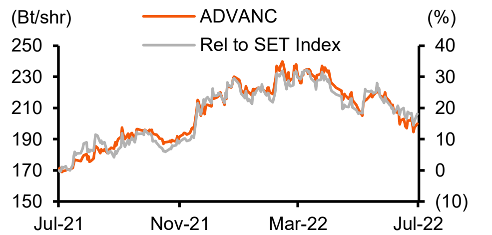
Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Revenue	181,333	189,323	196,353	201,909
Net profit	26,922	27,889	30,486	33,720
Norm net profit	27,168	27,889	30,486	33,720
Norm EPS (Bt)	9.1	9.4	10.3	11.3
Norm EPS gr (%)	(0.1)	2.7	9.3	10.6
Norm PE (x)	21.9	21.3	19.5	17.6
EV/EBITDA (x)	7.4	7.4	6.8	6.6
P/BV (x)	7.3	6.8	6.4	6.2
Div. yield (%)	3.8	3.8	4.6	5.7
ROE (%)	34.6	33.1	33.9	35.8
Net D/E (%)	104.8	101.8	82.5	74.5

Source: Thanachart estimates

Stock Data

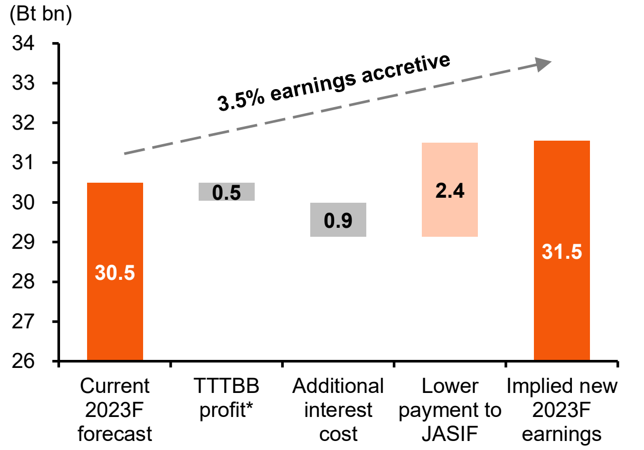
Closing price (Bt)	200.0
Target price (Bt)	230.0
Market cap (US$ m)	16,681.9
Avg daily turnover (US$ m)	38.5
12M H/L price (Bt)	240.0/169.0

Price Performance



Source: Bloomberg

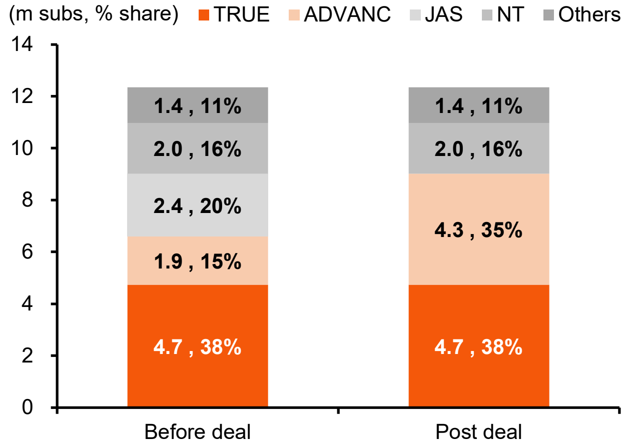
Ex 1: Immediate Impact To ADVANC's Earnings



Sources: Thanachart estimates

Npte: Based on three-quarters recognition (2Q-4Q23F), assuming the deal is finalized in 1Q23.
* Annualized from TTTBB's net loss in 1Q22

Ex 2: ADVANC To Hold #2 FBB Market Share Post-Deal



Sources: Company data, Thanachart estimates

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Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 23% of the shareholding in TMBThanachart Bank Pcl.

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